

# Economic Outlook Risks and State Revenue Update

Presented to  
Senate Ways and Means Committee

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February 13, 2013  
Olympia, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary

- Both the U.S. and Washington economies continue to grow slowly
- Labor markets remain weak, but unemployment rates are slowing declining
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about federal government gridlock, Europe, and China
- Revenue collections are \$83.7 M above the November forecast



# The state's risk matrix shows most risks from outside state



## Washington's Economy

EUROPE  
Sovereign  
Debt



EUROPE  
Banks

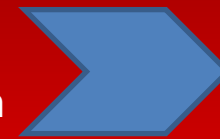


U.S.  
Banks

European  
Recession



Asia  
Slowdown



U.S.  
Trade

• Fiscal Budget, Tax  
& Debt Issues

• Middle East turmoil

Housing and construction, Exports

**State of  
Washington**

**Pluses**  
**Aerospace  
Software**

**Minuses**  
**State & Local  
Government**

Source: ERFC

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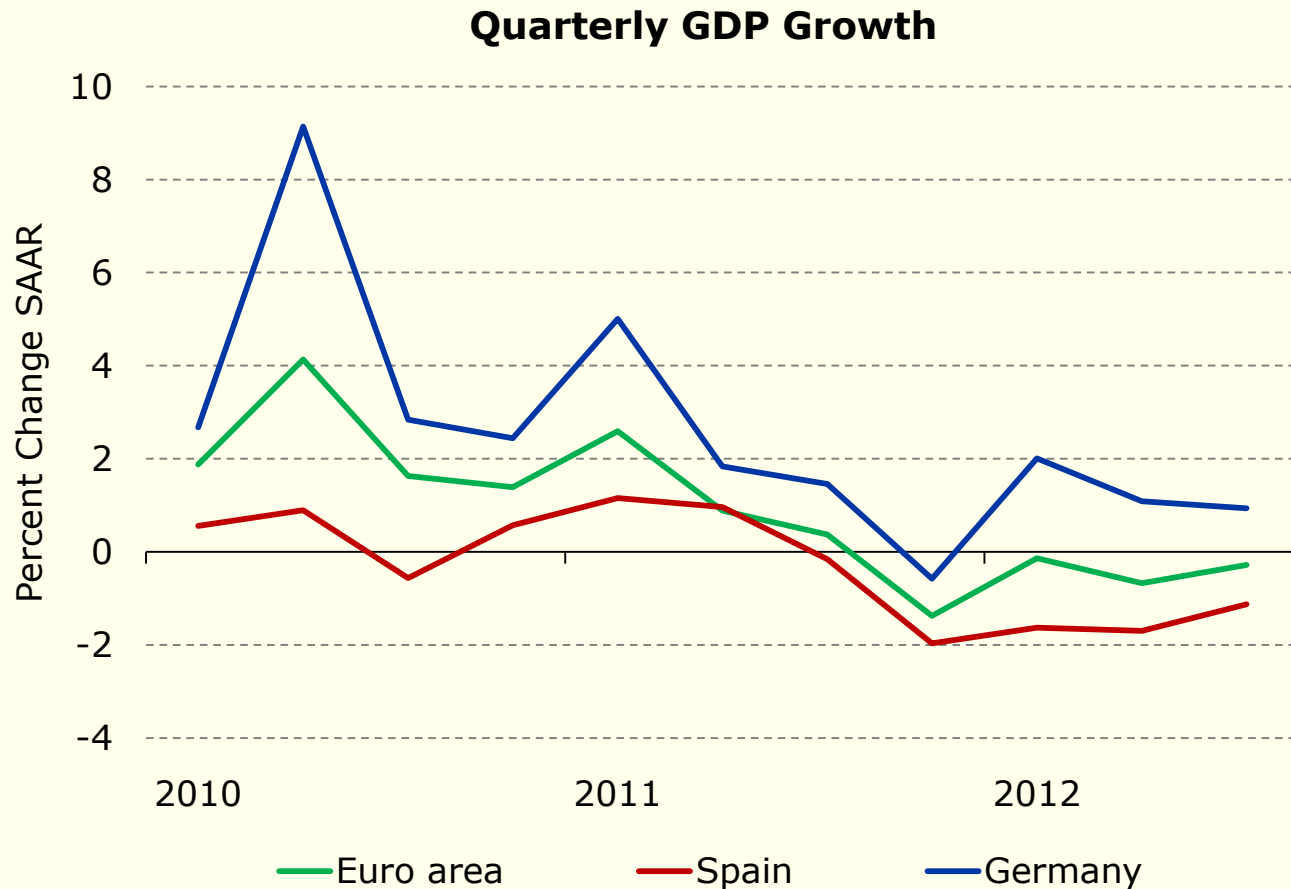


# Euro area GDP growth is negative

Eurozone  
Forecast:

2013: 0.0%

2014: 0.9%



Source: Eurostat; data through 2012Q3

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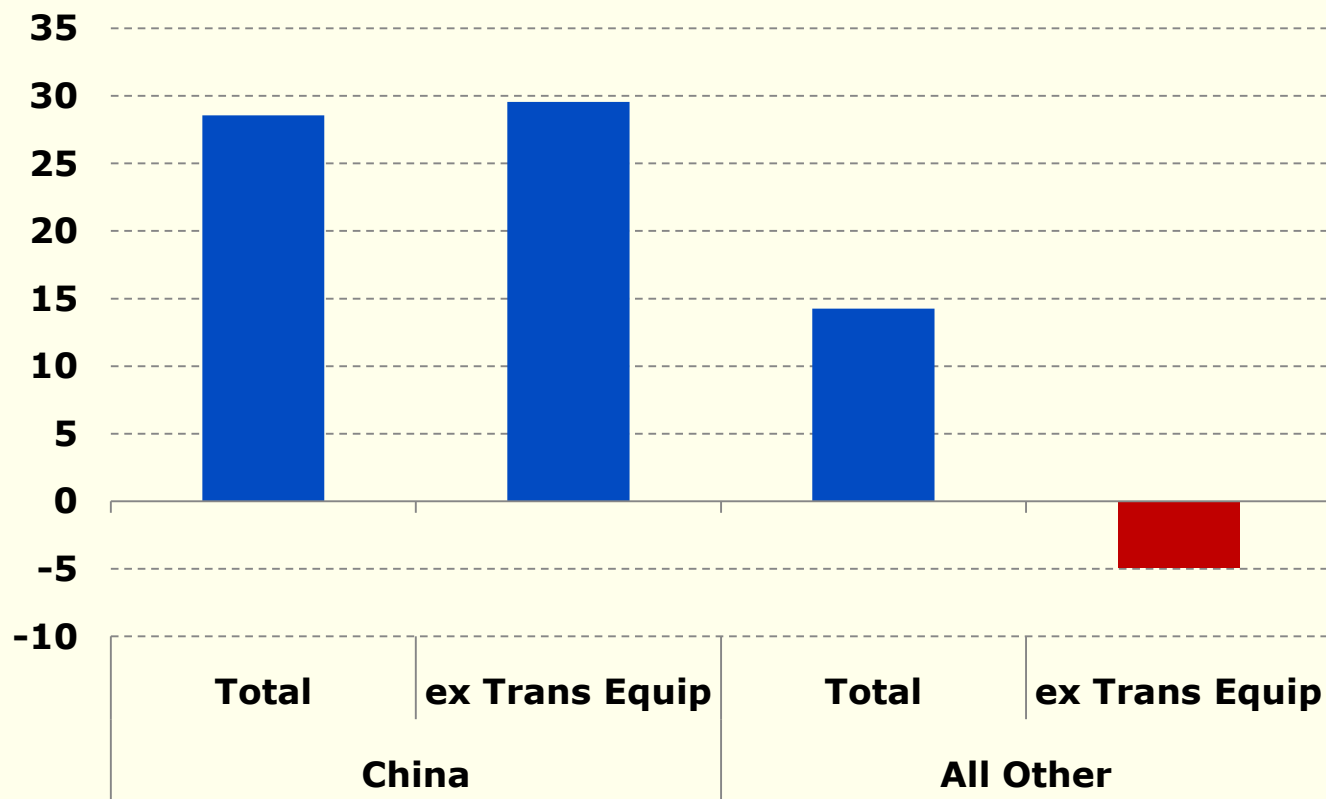
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# Non Transportation Equipment exports outside of China are declining

**Washington Exports YTD % Change**



Source: Wiser Trade Data; through November 2012

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# Federal tax and budget issues

## November forecast assumptions vs. Fiscal cliff deal

- All tax increases postponed until mid-2013, then some tax increases gradually phased in
  - Most income tax increases eliminated; payroll, capital gains, upper income tax rates increased January 1st
- Sequestration (across-the-board budget cuts) postponed until mid-2013, then some budget cuts gradually phased in
  - Sequestration postponed until March 1<sup>st</sup>



# Federal tax and budget issues

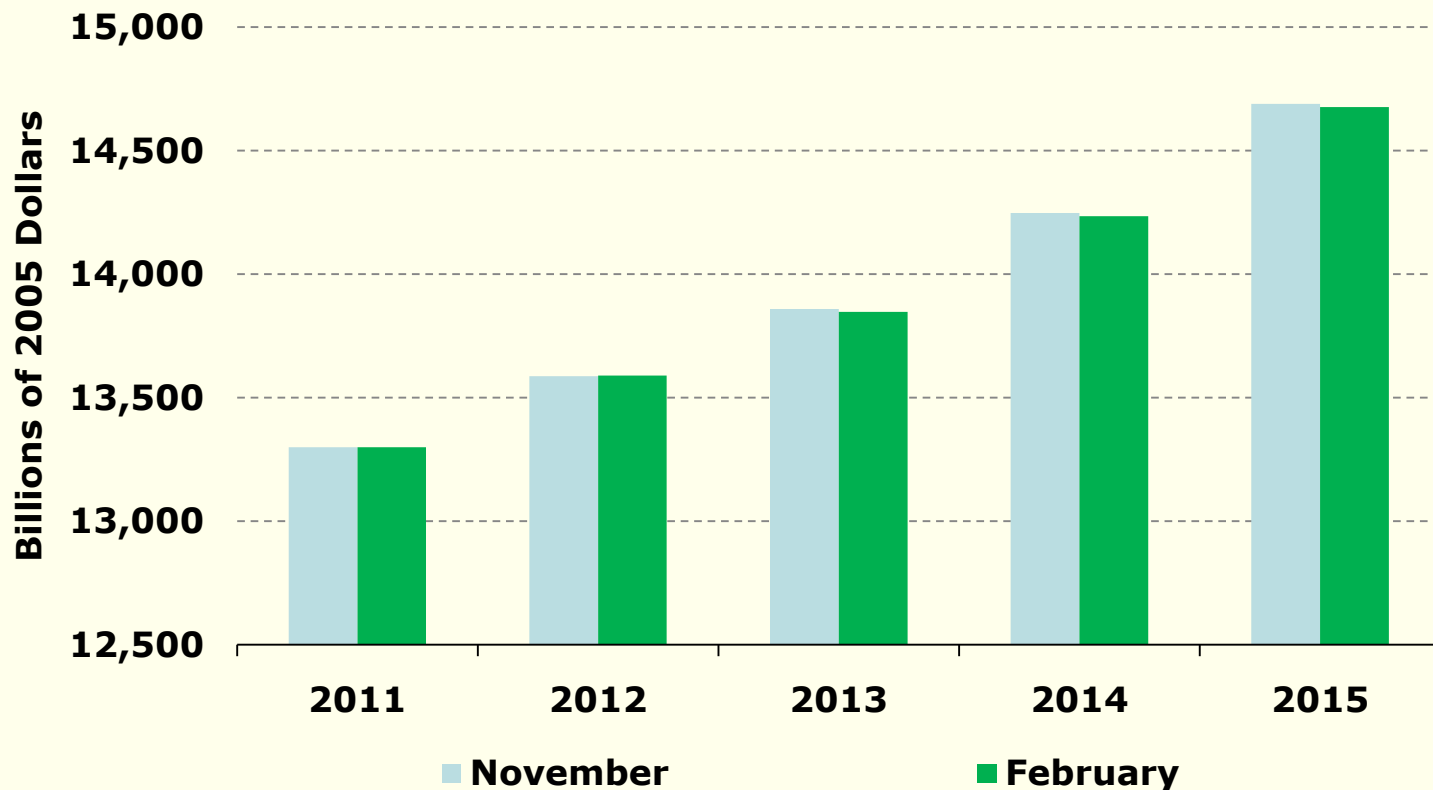
## Possible forecast impacts

- Taxes
  - Higher payroll taxes likely to reduce household purchases
  - Many companies shifted dividend payments from 2013 to 2012; this will reduce 2013 income
- Sequestration
  - Brief, then compromise: 0 to -0.1% GDP growth reduction
  - Through year end: -0.4% to -0.6% GDP growth reduction
  - Washington: potential \$100 M reduction in defense wages, \$480 M in defense procurement



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**

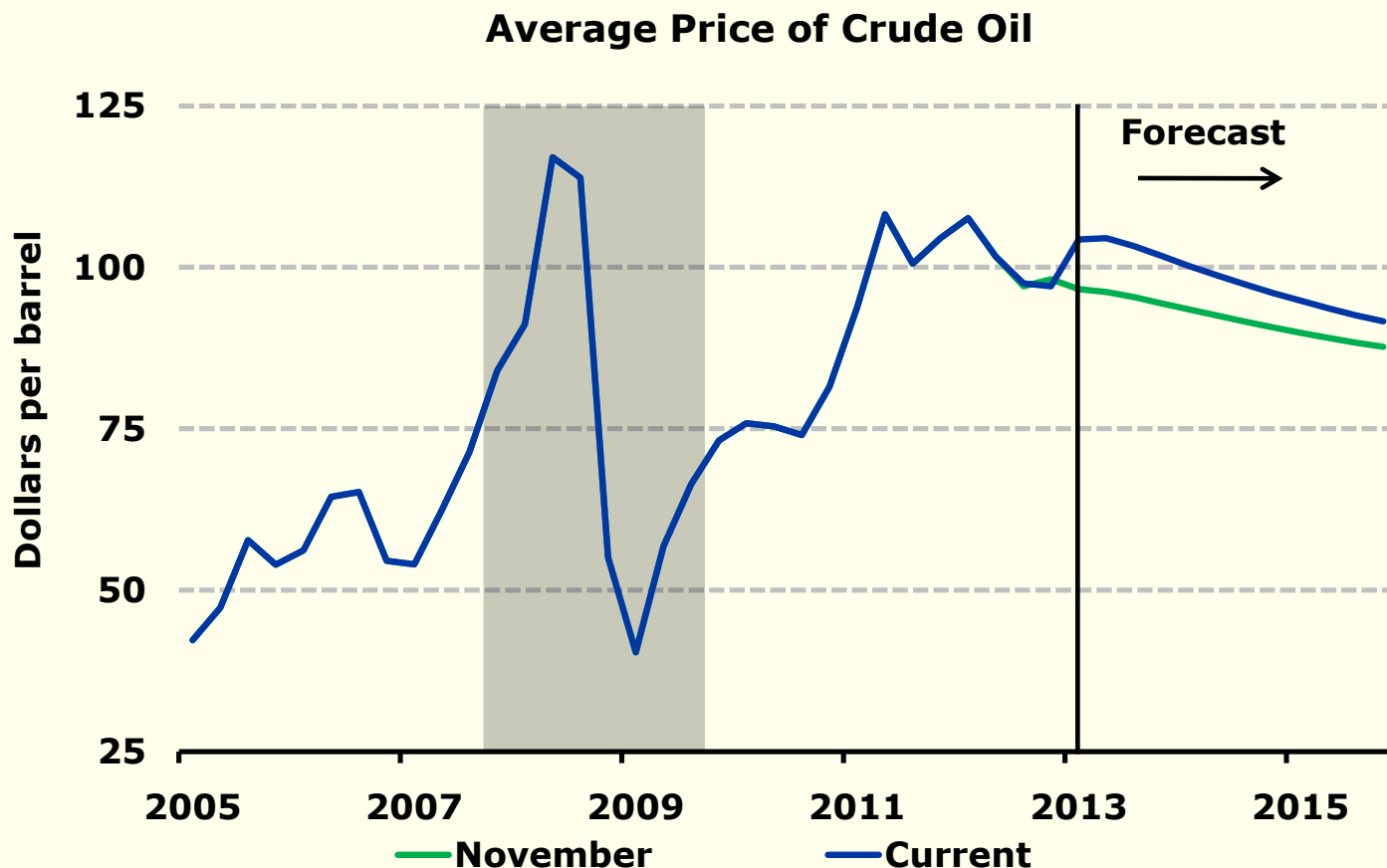


Source: BEA, Blue Chip Economic Indicators February 2013; historical data through 2012

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# Oil prices are expected to decline



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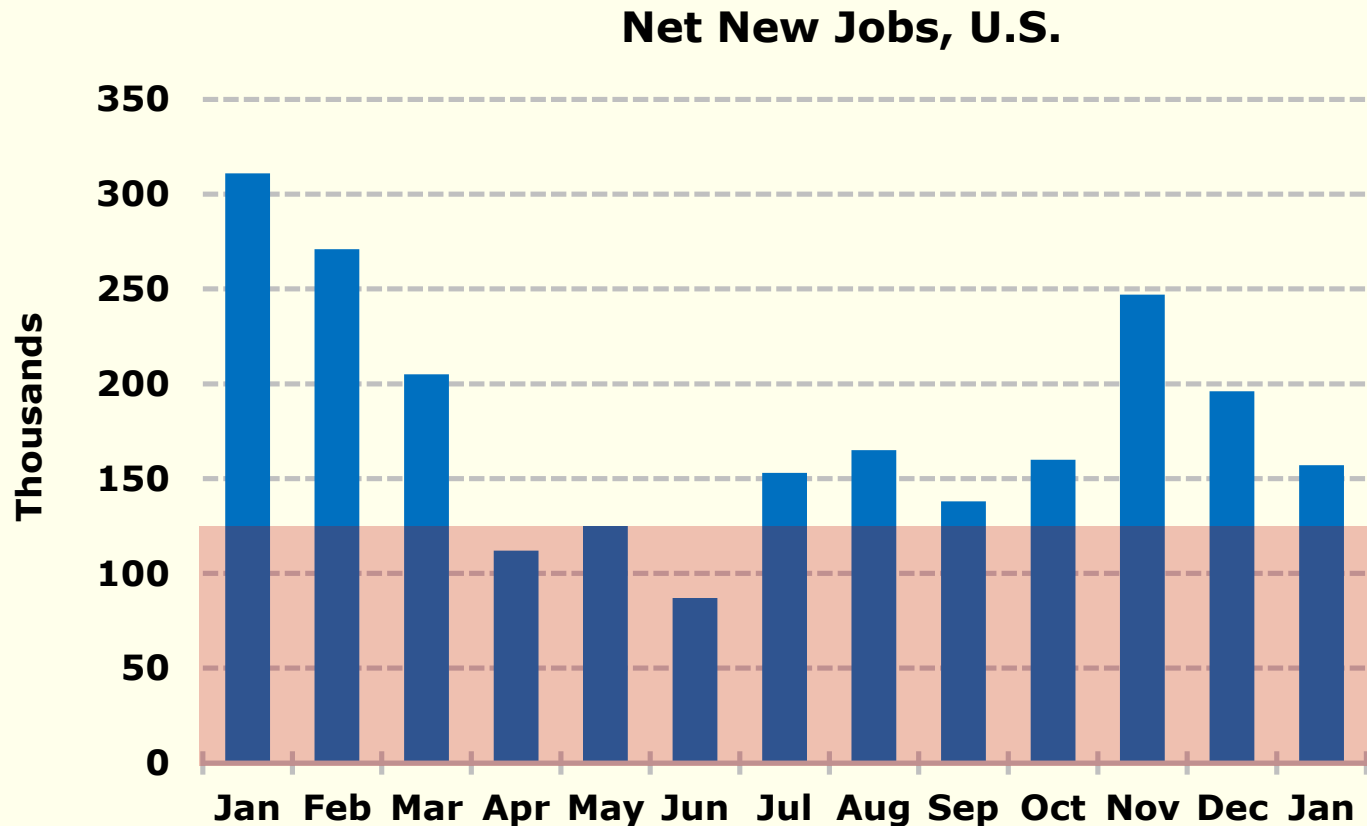
Source: DOE, ERFC November 2012 forecast; historical data through 2013Q1

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# Job growth remains weak

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



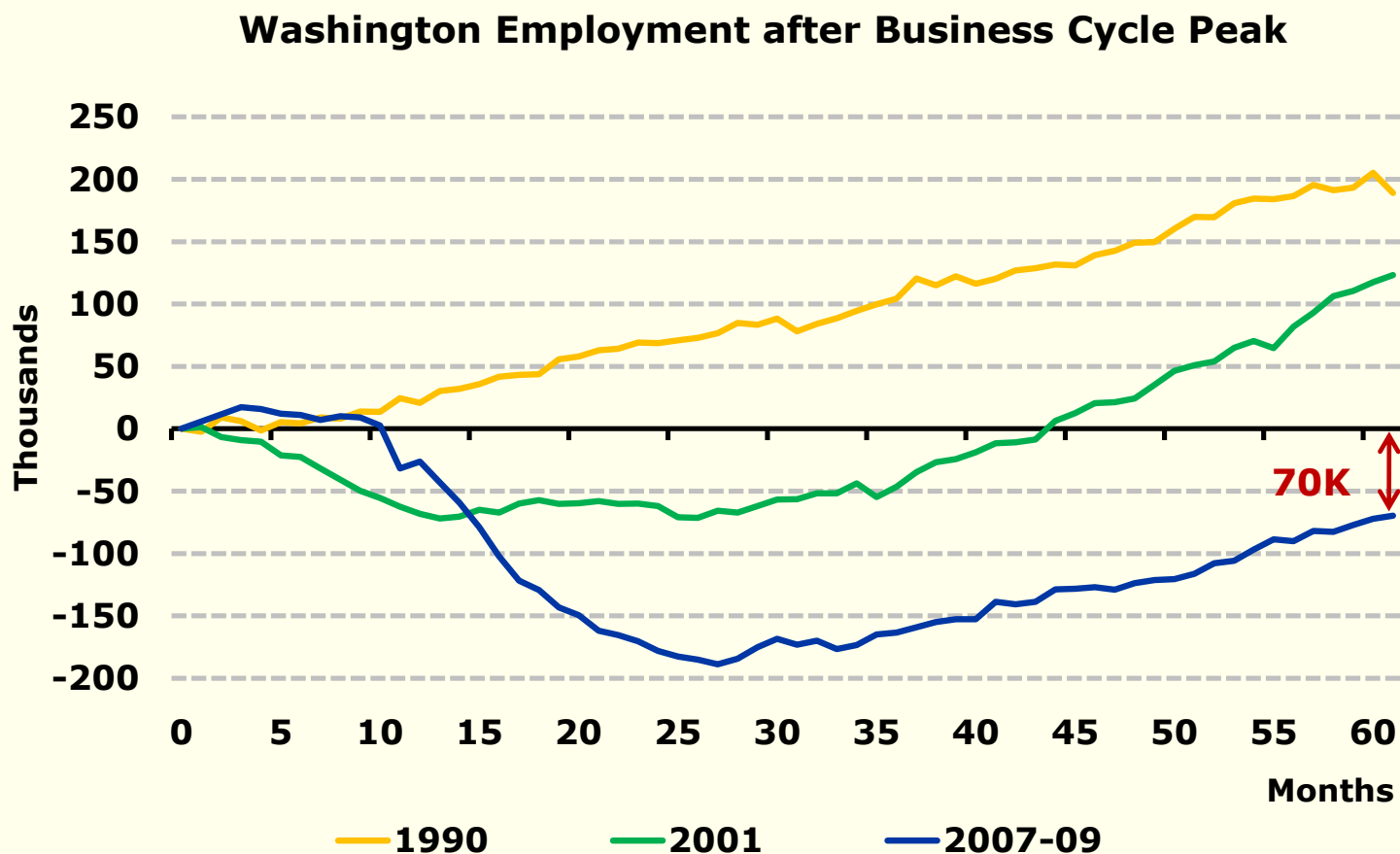
Source: Bureau of Labor Statistics, data through January 2013

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# The decline in employment has been severe



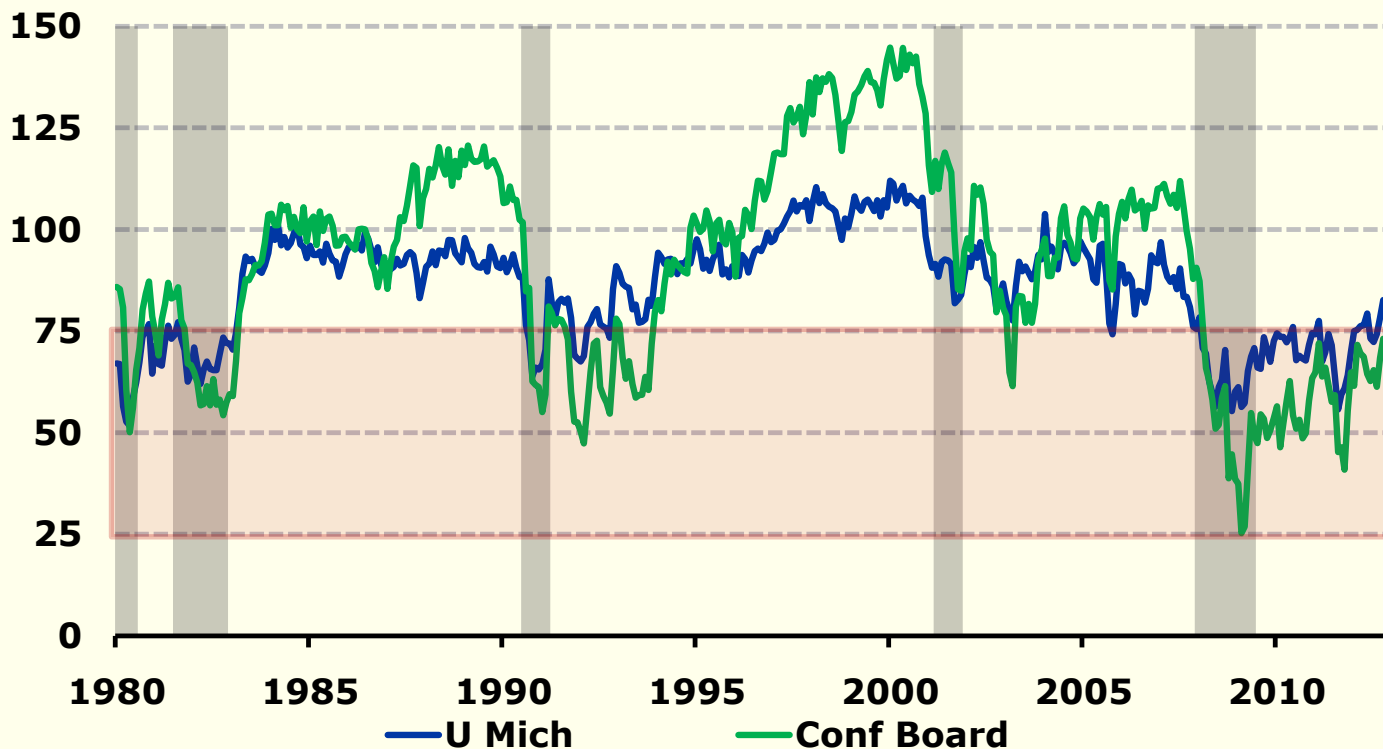


# Consumer confidence dipped at the end of the year

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



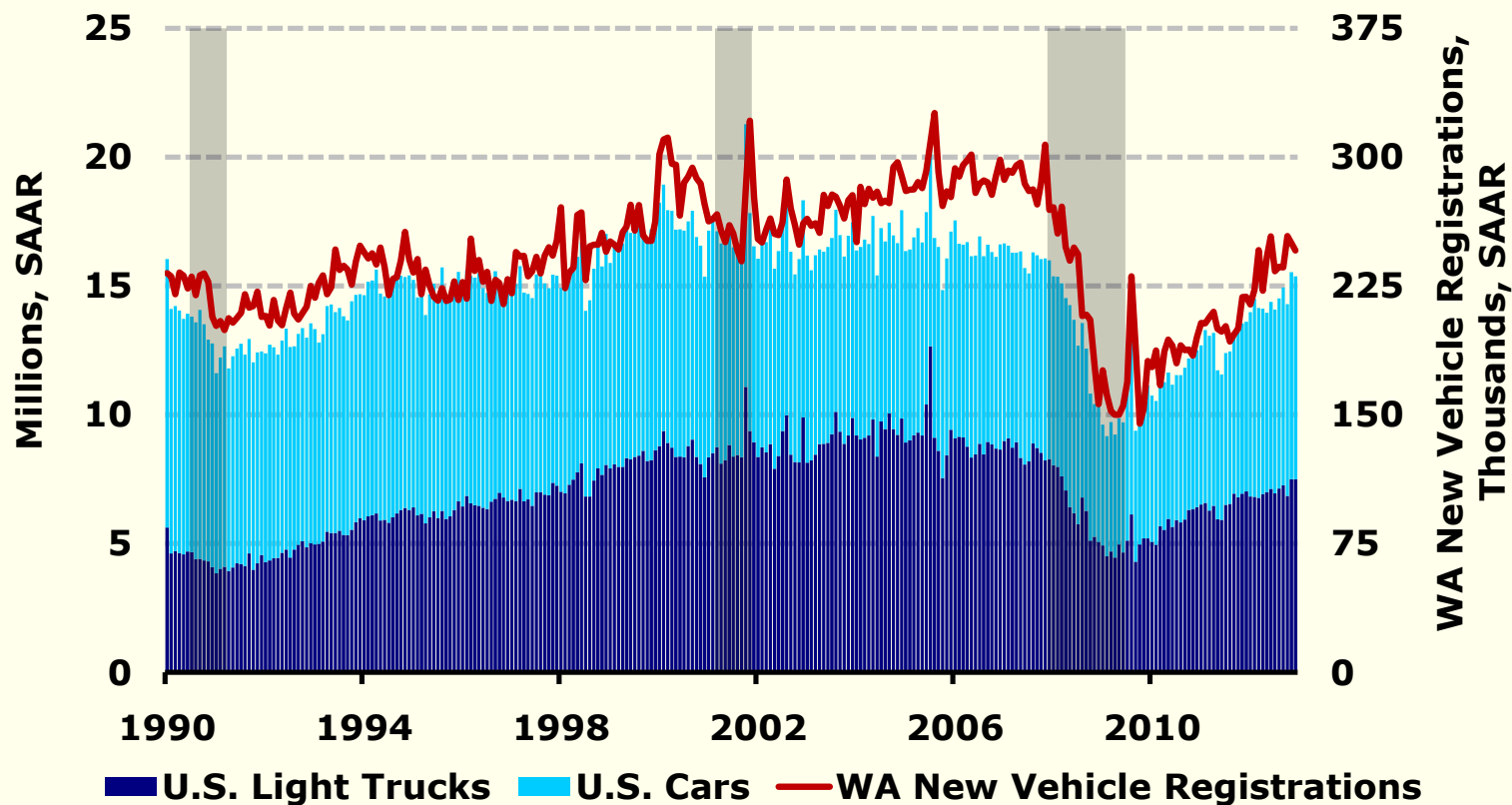
Source: University of Michigan; Conference Board, data through December 2012

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# Vehicle sales continue their upward trend

U.S. LMV sales in December were up 13% year-over-year.



Source: Autodata Corporation, WA DOL; data through December 2012

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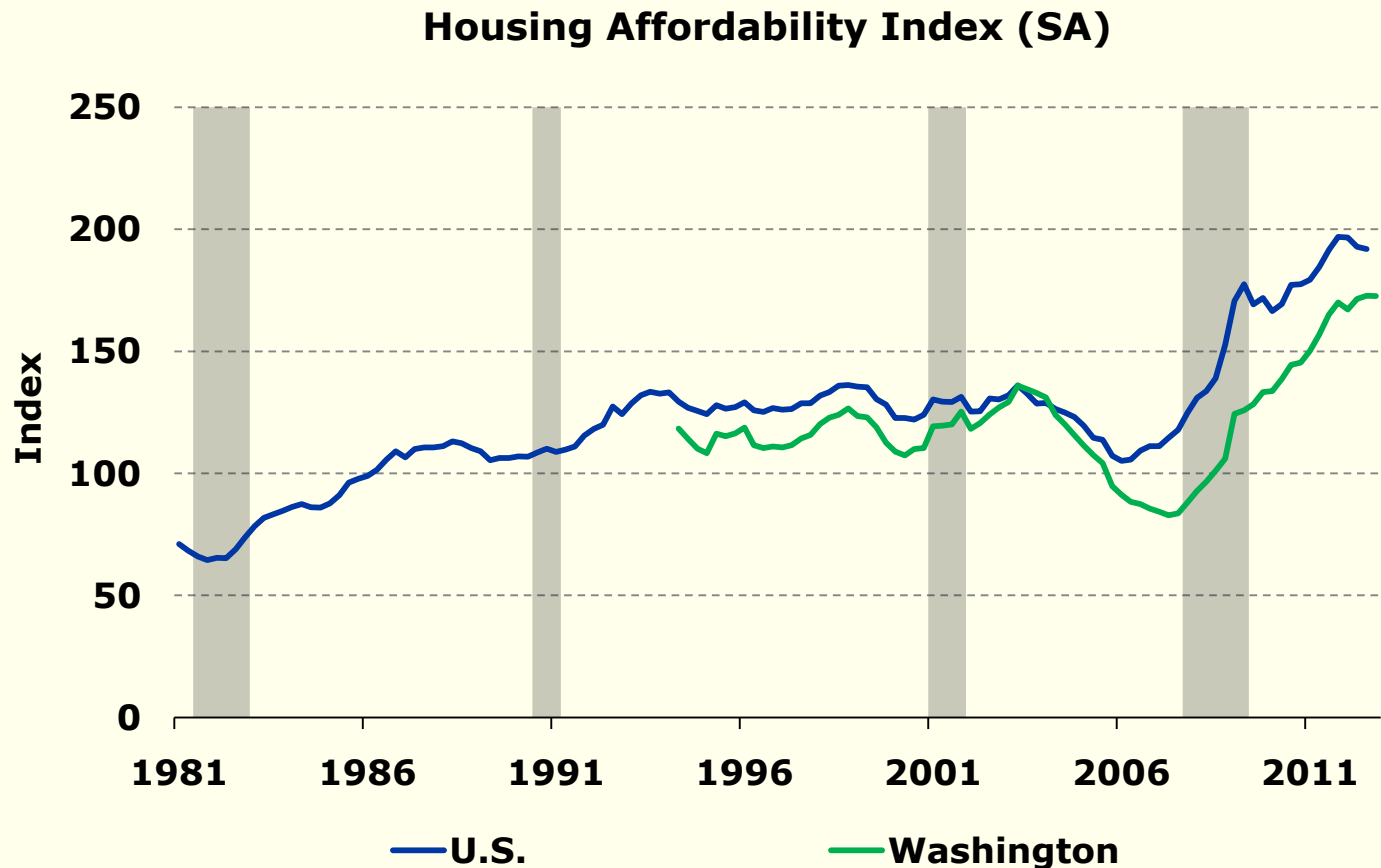


# Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home

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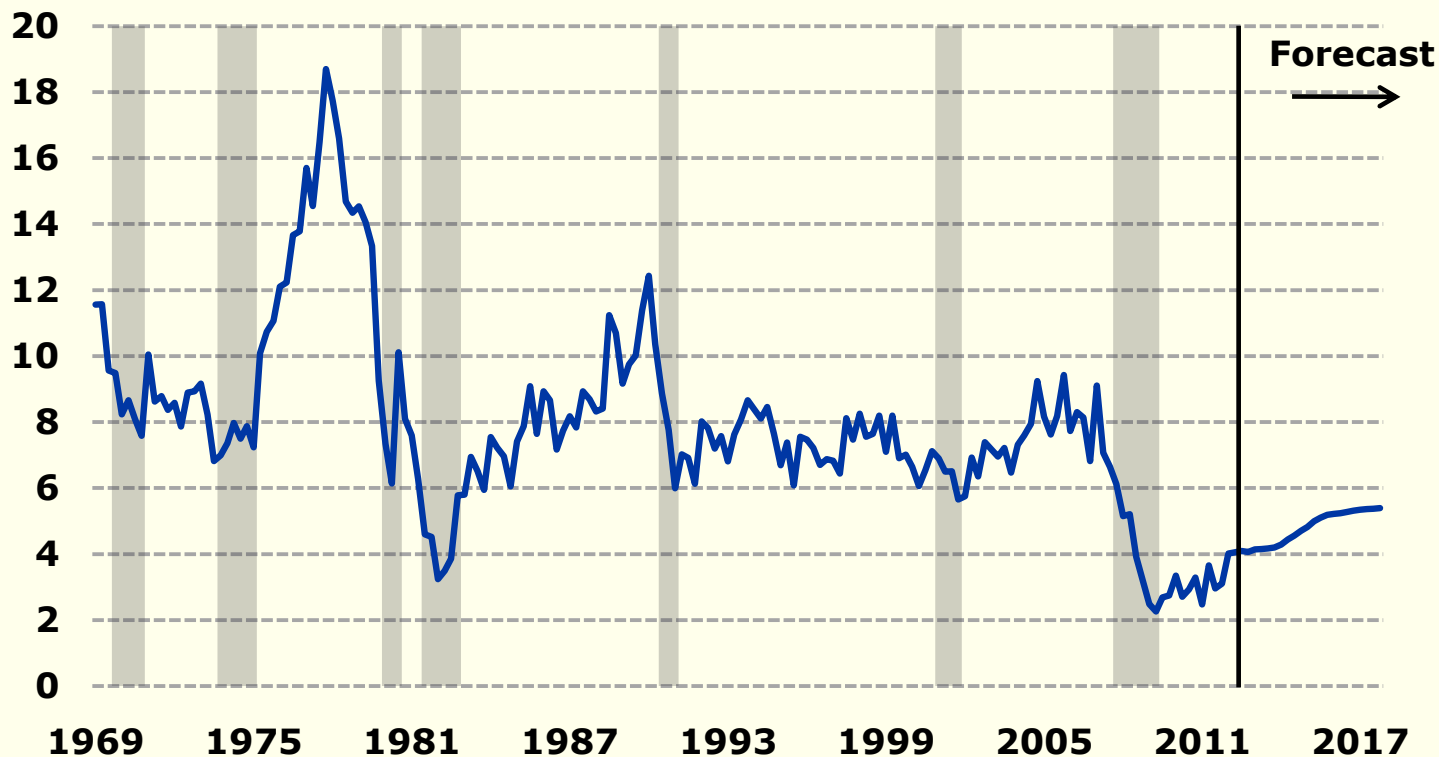
Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q4

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# Housing permits relative to population will still be below historic levels in 2017

**Washington Housing Permits per 1,000 People**



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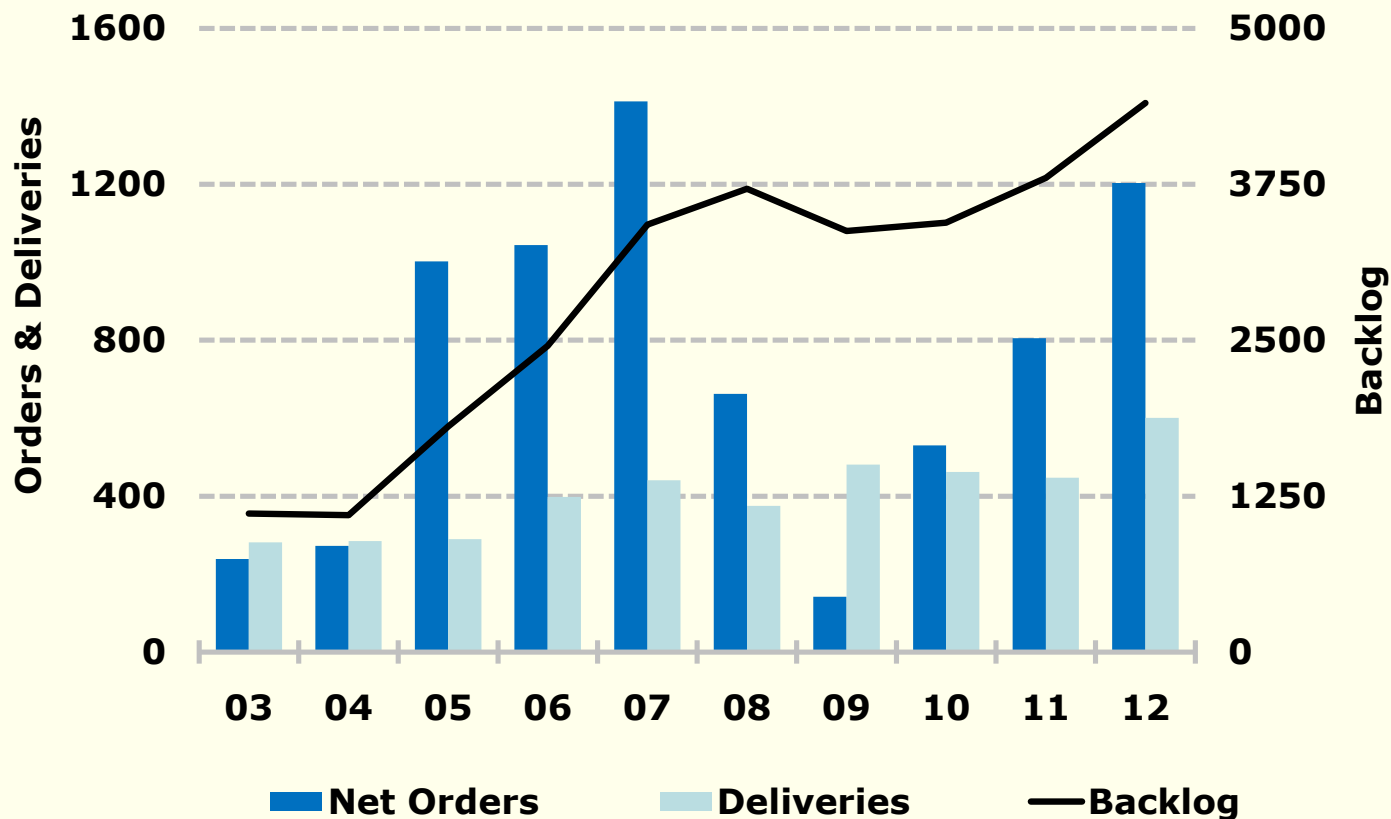
Source: U.S. Census Bureau, ERFC November 2012 Forecast; historical data through 2012 Q3

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# Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through December 2012

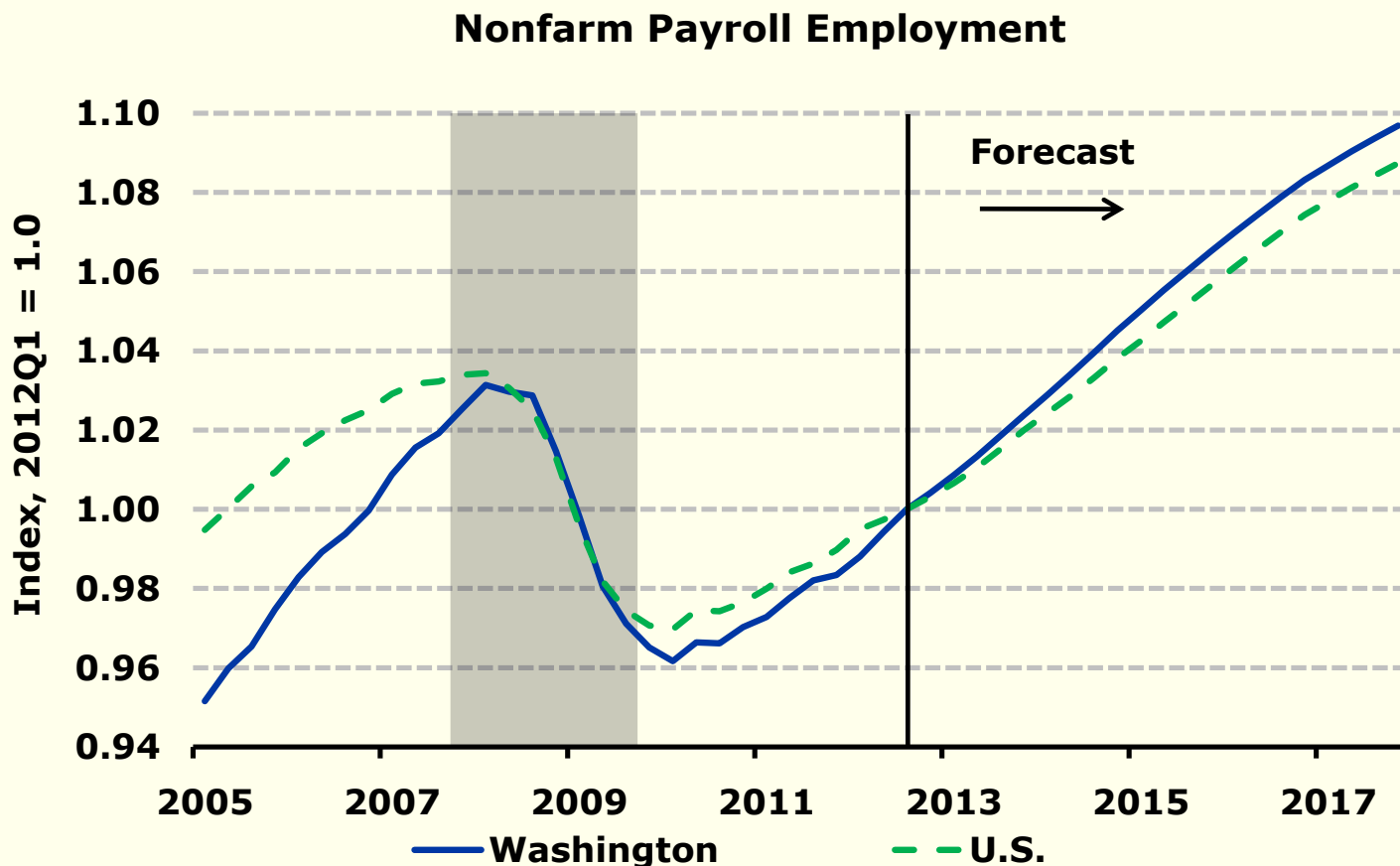


# WA employment will recover slightly faster than the U.S.

Date of  
regaining  
peak:

**WA:**  
2014Q2

**U.S.:**  
2014Q4



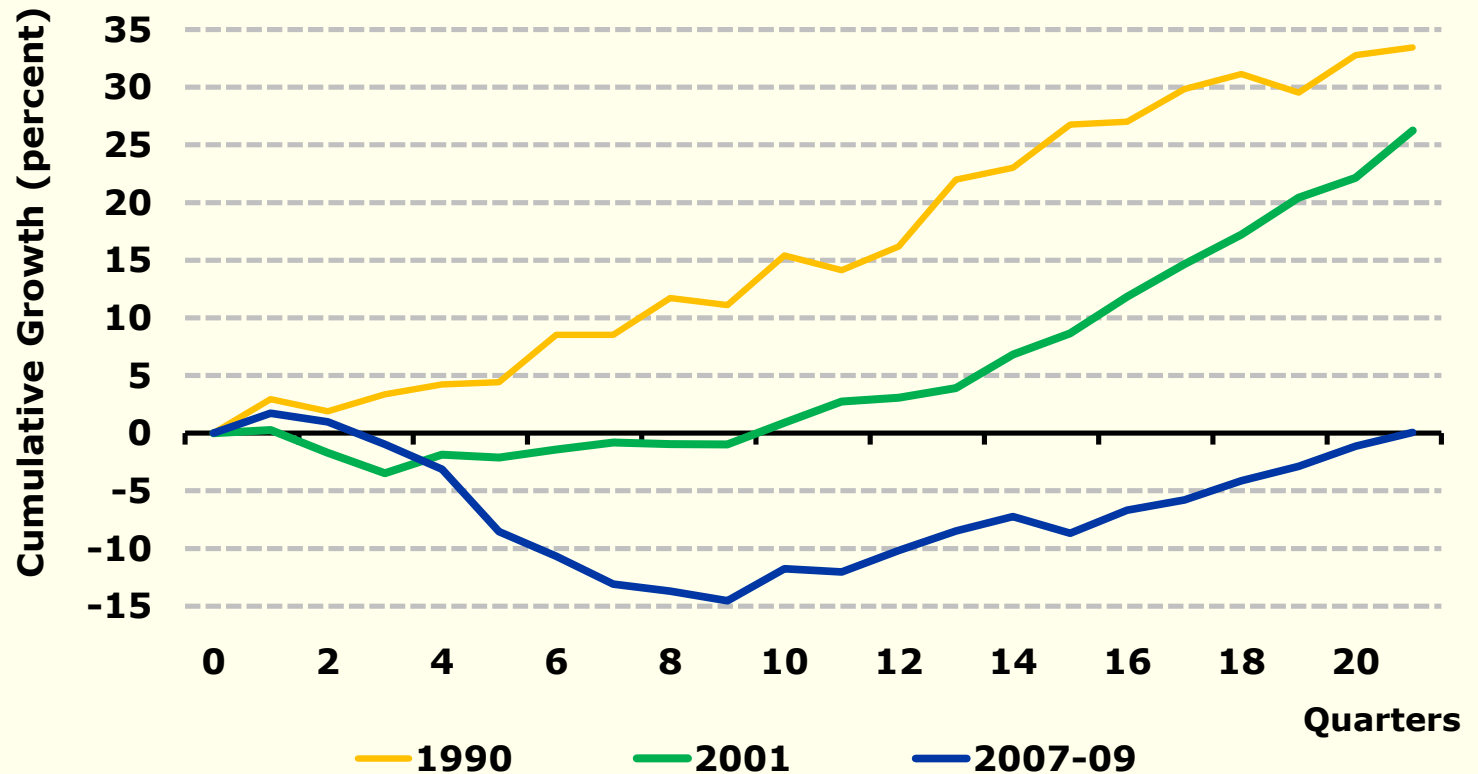
Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

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# Revenue collections have been weak compared to past recoveries

**Revenue Act Collections after Business Cycle Peak**



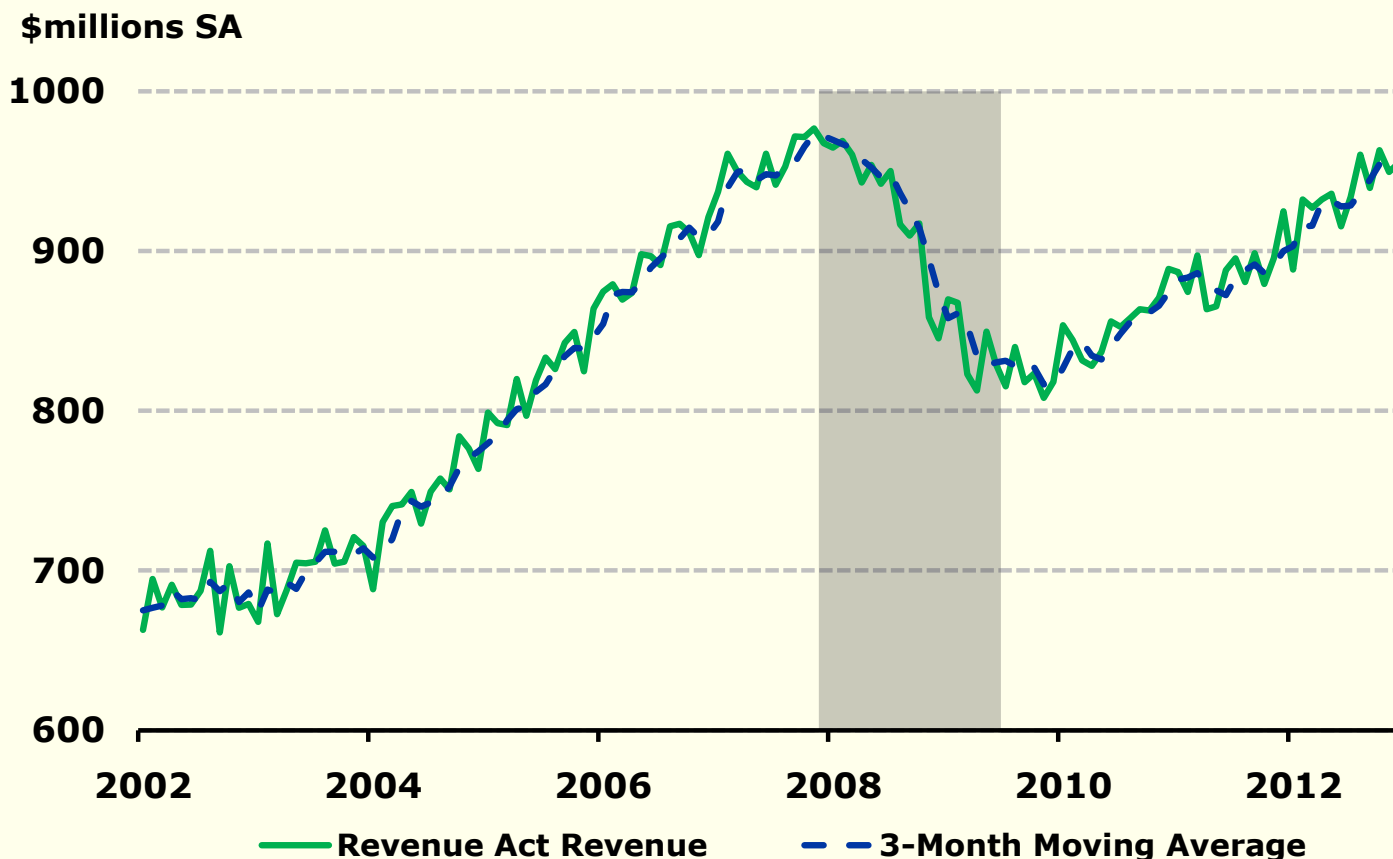
Source: ERFC; data through 2012 Q4

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# Revenue Act collections are still on an upward trend

Collections were up 0.0% year-over-year in the January 11 – February 10, 2013 collection period, but were up 5.0% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)



\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2012 activity

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# Revenue collections to date

## Cumulative Variance Since November Forecast (Nov 11, 2012 – Feb 10, 2013) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$4,148,972	\$4,233,770	\$84,798	2.0%
All other agencies	\$23,905	\$22,792	(\$1,113)	-4.7%
Total GF-S	\$4,172,877	\$4,256,562	\$83,685	2.0%



# Conclusion

- Economic growth remains slow, especially for a post-recession recovery
- Positive signs include the recovery in housing and its impacts on the construction sector, auto sales, and the Boeing backlog
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks
- The next revenue forecast is March 20th



# Questions



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